




ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION

2 COMMISSIONERS
3 MIKE GLEASON - Chairman
4 WILLIAM A. MUNDELL
5 JEFF HATCH-MILLER
6 KRISTIN K. MAYES
7 GARY PIERCE

2008 AUG 15 P 2:01
AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission
DOCKETED
AUG 15 2008

DOCKETED BY 

7 **IN THE MATTER OF APPLICATION OF THE**
8 **GROOM CREEK WATER USER ASSOCIATION**
9 **FOR APPROVAL OF FINANCING.**

DOCKET NO. W-01865A-07-0384

9 **IN THE MATTER OF APPLICATION OF THE**
10 **GROOM CREEK WATER USER ASSOCIATION**
11 **FOR A PERMANENT RATE INCREASE.**

DOCKET NO. W-01865A-07-0385

**STAFF'S POST-HEARING
UPDATE**

12 On June 25, 2007, the Groom Creek Water User Association ("Groom Creek" or "Company")
13 filed an application requesting Arizona Corporation Commission ("ACC" "Commission") approval
14 of a rate increase.

15 On the same date, Groom Creek filed a financing application in Docket No. W-01865A-07-
16 0384.

17 On November 30, 2007, the ACC Hearing Division issued a Procedural Order consolidating
18 the matters.

19 On May 15, 2008, a full public hearing commenced in the combined matters. A second day
20 of hearing took place on July 21, 2008. At the conclusion of the hearing, Staff was directed to docket
21 late-filed exhibits related to testimony provided at the hearing.

22 On July 30, 2008, the Hearing Division issued a Procedural Order directing Staff to file, on or
23 before August 15, 2008:

- 24 - a late-filed exhibit showing the corrections made at hearing to the Supplemental
Staff Report; and
- 25 - an analysis and recommendation of the additional revenues needed by Groom
26 Creek, if the Commission authorizes financing in the amount of \$1.8 million,
including supporting schedules.

27 Staff hereby files the exhibits directed at hearing and in the July 30 Procedural Order.

28 The Groom Creek water system has been plagued in recent years by a series of breaks in the

1 asbestos-concrete composite pipes that comprise much of its infrastructure. The related repairs have
2 been expensive in and of themselves, but Yavapai County's announcement of its plans to pave the
3 roads in the Groom Creek area has raised concerns that the cost to repair the aging mains would be
4 higher still, thereafter. With that in mind, Groom Creek filed an application for financing intended to
5 replace the asbestos concrete pipes with safer, more reliable, PVC pipe and to do so before Yavapai
6 County paved the road under which the Groom Creek pipes run.

7 In its application, the Company provided a detailed list of projects it intended to complete in
8 order to overhaul its entire system. Because the total amount of financing needed for the entire list
9 was prohibitive, the list was eventually narrowed down to a series of "phase one" projects that Groom
10 Creek needed to complete before the roads were paved. The Company proposed a financing and
11 associated rate increase it believed would accomplish the goal.

12 On July 8, 2008, Staff docketed its Supplemental Staff Report. Staff evaluated the application
13 and determined that financing in the amount of \$1.6 million, together with a rate increase to service
14 the additional debt, was sufficient to pay for all of the projects on Groom Creek's phase one list.

15 At hearing, however, there was discussion of the need to account for future fire flow within
16 the initial list of projects. Staff's analysis, however, had not presented this alternative. As a result,
17 Staff was asked to provide the alternative amounts for the Hearing Division's consideration.

18 As a fundamental consideration, regardless of the loan amount, Groom Creek will need to
19 have revenue sufficient to pay back the principal and interest associated with the loan. However, as
20 discussed in the testimony at hearing, Groom Creek will be financing its projects through loans from
21 the Water Infrastructure Financing Authority ("WIFA"). To qualify for a WIFA loan, WIFA requires
22 companies not just to pay back the principal, but to put additional money into a "set-aside" account,
23 which will require additional revenue. And finally, to qualify for the loan, WIFA requires
24 Companies to maintain a Debt Service Coverage ("DSC") ratio of 1.20. To be sure the Company has
25 a "cushion" to comply with the WIFA requirements, Staff set a "target" DSC of 1.25, and provided
26 for revenue accordingly.

27 Staff calculated that Groom Creek would require total revenues of \$222,369, to service a \$1.6
28 million, 20-year loan with a 1.25 DSC, and provide for the set-aside account, as shown in the

1 Supplemental Staff Report, Schedule BCA-6. Attached as Late Filed Exhibits 1-4 are the schedules
2 reflecting the changes needed to service the higher loan amount.

3 Debt service on a 20-year, \$1.8 million loan, results in a need for a total target revenue of
4 \$241,765, as shown in attached Late Filed Exhibit A. Late Filed Exhibit B also shows this total
5 target revenue, and reflects the changes to Groom Creek's overall capital structure resulting from the
6 higher loan amount. Late Filed Exhibit C reflects the rate design necessary to reach Staff's target
7 revenue. Late Filed Exhibit D reflects the changes to the average customer bill that will result from
8 the rate increase necessary to service the proposed \$1.8 million loan.

9 At hearing, Staff engineer Marlin Scott, Jr., testified that in light of new information regarding
10 the Company's backflow prevention tariff, his engineering analysis, Attachment A to the Staff Report
11 and Supplemental Staff Report, would need to be modified. Mr. Scott testified as to the necessary
12 changes and Staff hereby provides a copy of Mr. Scott's amended engineering analysis, attached as
13 Exhibit E, which simply replaces the previous version in its entirety.

14 Staff's only correction to the Supplemental Staff Report corrects a typographical error, which
15 appears on page 11. Under the heading "Conclusions and Recommendations -- Financing", the first
16 sentence of the second paragraph states that Staff recommends that the Commission authorize Groom
17 Creek to obtain "an 18- to 22- year" amortizing loan..." The appropriate term should read "an 18- to
18 30- year" amortizing loan.

19 Finally, at the conclusion of the hearing, the Hearing Division requested an update regarding
20 the number of customer comments the Consumer Services Section had received regarding Groom
21 Creek's proposed rate increase. Attached as Exhibit F is a summary of the updated information. The
22 updated summary reflects that five additional opinions had been filed since the first summary of
23 consumer information had been provided.

24 ...

25 ...

26 ...

27 ...

28 ...

RESPECTFULLY SUBMITTED this 15th day of August, 2008.

By

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Original and fifteen (15) copies of the foregoing
filed this 15th day of August, 2008, with:

Docket Control
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Phoenix, Arizona 85007

Copy of the foregoing mailed this
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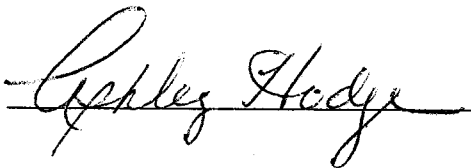
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EXHIBIT A

SUMMARY OF FILING

Reflects Revenue Requirement For a \$1.8 Million, 20-year, 4.9 Percent Loan and 1.25 DSC

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$55,902	\$60,993	\$151,316	\$ 240,535
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	1,230	1,230	0	1,230
Total Operating Revenue	\$57,132	\$62,223	\$151,316	\$241,765
Operating Expenses:				
Operation and Maintenance	\$35,373	\$42,161	\$35,373	\$42,161
Depreciation	4,871	863	4,871	863
Property & Other Taxes	2,502	2,502	2,502	2,502
Income Tax	1,578	0	1,578	0
Total Operating Expense	\$44,324	\$45,526	\$44,324	\$45,526
Operating Income/(Loss)	\$12,808	\$16,697	\$106,992	\$196,238
Rate Base O.C.L.D.	\$60,018	\$31,757	\$60,018	\$31,757
Rate of Return - O.C.L.D.	21.34%	52.58%	178.27%	617.94%
Times Interest Earned Ratio (Pre-Tax)	2.24	0.18	1.13	2.08
Debt Service Coverage Ratio (Pre-Tax)	1.21	0.19	0.70	1.25
Operating Margin	22.42%	26.83%	70.71%	81.17%

- NOTES:
1. The times interest earned ratio (TIER) represents the ability of the Company to pay interest expenses before taxes.
 2. Operating Margin represents the proportion of funds available to pay interest and other below the line or non-ratemaking expenses.

EXHIBIT B

WIFA LOAN FINANCIAL ANALYSIS

Staff Adjusted Test Year and Recommended Revenue Reflecting
the Effects of a \$1.8 Million Debt¹

INCOME STATEMENT

	<u>Test Year</u>	<u>Pro Forma</u>
Operating Revenue:	\$62,223	\$ 241,765
Operating Expenses:		
Purchased Water/Pumping Power	\$3,451	\$3,451
Admin. & General	\$33,012	33,012
Maintenance & Testing	\$5,698	5,698
Depreciation (d)	\$863	863
Property Taxes	\$2,502	2,502
Other taxes	0	0
Total Operating Expense	<u>\$45,526</u>	<u>\$45,526</u>
Pre-Tax Operating Income (a)	\$16,697	\$196,238
Interest Expense (b)	<u>7,463</u>	<u>94,410</u>
Pre-Tax Net Income	<u><u>\$9,234</u></u>	<u><u>\$101,828</u></u>
Principal Repayment (c)	\$7,003	\$ 63,270
Reserve/Replacement Deposit (e)	0	28,643
TIER (Times Interest Earned Ratio)		
(a) ÷ (b)	2.24	2.08
DSC		
[(a) ÷ (d)] ÷ [(b) ÷ (c)]	1.21	1.25

CAPITAL STRUCTURE

Short-term Debt	\$7,003	3.7%	\$ 63,269.92	3.2%
Long-term Debt	\$145,438	77.8%	\$1,889,171	95.1%
Common Equity	\$34,380	18.4%	\$34,380	1.7%
Total Capital	\$186,821	100.0%	\$1,986,821	100.0%

¹ Twenty-year amortizing loan at 4.9 percent per annum.

EXHIBIT C

RATE DESIGN¹

Monthly Usage Charge	Present	-Proposed Rates-	
	Rates	Association	Staff
5/8" x 3/4" Meter	\$14.00	\$42.00	\$ 54.00
3/4" Meter	17.25	N/A	54.00
1" Meter	28.75	N/A	135.00
1½" Meter	57.50	N/A	270.00
2" Meter	92.00	N/A	432.00
3" Meter	172.50	N/A	864.00
4" Meter	287.50	N/A	1,350.00
6" Meter	575.00	N/A	2,700.00
Gallons in Minimum	0.00	1,000	0.00
<u>Company Current & Staff Recommended 5/8 X 3/4-inch Meters</u>			
First Tier - 0 - 3,000 gallons	3.00		12.00
Second Tier - 3,001 - 6,000 gallons	3.50		14.40
Third Tier - 6,001 - 10,000 gallons	4.00		17.20
Fourth Tier - Over 10,000 gallons	8.00		35.80
<u>Company Proposed 5/8 X 3/4-inch Meters</u>			
First Tier - 1,001 - 6,000 gallons		5.50	
Second Tier - 6,001 - 10,000 gallons		8.00	
Third Tier - 10,001 - 20,000 gallons		10.00	
Fourth Tier - Over 20,000 gallons		12.00	
<u>Company Current & Staff Recommended 3/4-inch Meters</u>			
First Tier - 0 - 3,000 gallons	3.00		12.00
Second Tier - 3,001 - 6,000 gallons	3.50		14.40
Third Tier - 6,001 - 10,000 gallons	4.00		17.20
Fourth Tier - Over 10,000 gallons	8.00		35.80
<u>Company Proposed 3/4-inch Meters</u>			
First Tier - 1,001 - 6,000 gallons		5.50	
Second Tier - 6,001 - 10,000 gallons		8.00	
Third Tier - 10,001 - 20,000 gallons		10.00	
Fourth Tier - Over 20,000 gallons		12.00	
<u>Company Current 1-inch Meters</u>			
First Tier - 0 - 3,000 gallons	3.00		
Second Tier - 3,001 - 6,000 gallons	3.50		
Third Tier - 6,001 - 10,000 gallons	4.00		
Fourth Tier - Over 10,000 gallons	8.00		

RATE DESIGN¹

	Present Rates	-Proposed Rates- Association	Staff
<u>Monthly Usage Charge</u>			
<u>Company Proposed 1-inch Meters</u>			
First Tier - 1,001 -6,000 gallons		5.50	
Second Tier - 6,001 - 10,000 gallons		8.00	
Third Tier - 10,001 - 20,000 gallons		10.00	
Fourth Tier - Over 20,000 gallons		12.00	
<u>Staff Recommended - 1-inch Meters</u>			
First Tier - 0 - 12,000 gallons			17.20
Second Tier - Over 12,000 gallons			35.80
<u>Company Current 1.5-inch Meters</u>			
First Tier - 0 - 3,000 gallons	3.00		
Second Tier - 3,001 - 6,000 gallons	3.50		
Third Tier - 6,001 - 10,000 gallons	4.00		
Fourth Tier - Over 10,000 gallons	8.00		
<u>Company Proposed 1.5-inch Meters</u>			
First Tier - 1,001 -6,000 gallons		5.50	
Second Tier - 6,001 - 10,000 gallons		8.00	
Third Tier - 10,001 - 20,000 gallons		10.00	
Fourth Tier - Over 20,000 gallons		12.00	
<u>Staff Recommended - 1.5-inch Meters</u>			
First Tier - 0 - 18,000 gallons			17.20
Second Tier - Over - 18,000 gallons			35.80
<u>Company Current 2-inch Meters</u>			
First Tier - 0 - 3,000 gallons	3.00		
Second Tier - 3,001 - 6,000 gallons	3.50		
Third Tier - 6,001 - 10,000 gallons	4.00		
Fourth Tier - Over 10,000 gallons	8.00		
<u>Company Proposed 2-inch Meters</u>			
First Tier - 1,001 -6,000 gallons		5.50	
Second Tier - 6,001 - 10,000 gallons		8.00	
Third Tier - 10,001 - 20,000 gallons		10.00	
Fourth Tier - Over 20,000 gallons		12.00	
<u>Staff Recommended - 2-inch Meters</u>			
First Tier - 0 - 25,000 gallons			17.20
Second Tier - Over - 25,000 gallons			35.80

RATE DESIGN¹

Monthly Usage Charge	Present Rates	-Proposed Rates- Association	Staff
<u>Company Current 3-inch Meters</u>			
First Tier - 0 - 3,000 gallons	3.00		
Second Tier - 3,001 - 6,000 gallons	3.50		
Third Tier - 6,001 - 10,000 gallons	4.00		
Fourth Tier - Over 10,000 gallons	8.00		
<u>Company Proposed 3-inch Meters</u>			
First Tier - 1,001 -6,000 gallons		5.50	
Second Tier - 6,001 - 10,000 gallons		8.00	
Third Tier - 10,001 - 20,000 gallons		10.00	
Fourth Tier - Over 20,000 gallons		12.00	
<u>Staff Recommended - 3-inch Meters</u>			
First Tier - 0 - 43,000 gallons			17.20
Second Tier - Over -43,000 gallons			35.80
 <u>Company Current 4-inch Meters</u>			
First Tier - 0 - 3,000 gallons	3.00		
Second Tier - 3,001 - 6,000 gallons	3.50		
Third Tier - 6,001 - 10,000 gallons	4.00		
Fourth Tier - Over 10,000 gallons	8.00		
<u>Company Proposed 4-inch Meters</u>			
First Tier - 1,001 -6,000 gallons		5.50	
Second Tier - 6,001 - 10,000 gallons		8.00	
Third Tier - 10,001 - 20,000 gallons		10.00	
Fourth Tier - Over 20,000 gallons		12.00	
<u>Staff Recommended - 4-inch Meters</u>			
First Tier - 0 - 63,000 gallons			17.20
Second Tier - Over - 63,000 gallons			35.80
 <u>Company Current 6-inch Meters</u>			
First Tier - 0 - 3,000 gallons	3.00		
Second Tier - 3,001 - 6,000 gallons	3.50		
Third Tier - 6,001 - 10,000 gallons	4.00		
Fourth Tier - Over 10,000 gallons	8.00		
<u>Company Proposed 6-inch Meters</u>			
First Tier - 1,001 -6,000 gallons		5.50	
Second Tier - 6,001 - 10,000 gallons		8.00	
Third Tier - 10,001 - 20,000 gallons		10.00	
Fourth Tier - Over 20,000 gallons		12.00	
<u>Staff Recommended - 6-inch Meters</u>			
First Tier - 0 - 123,000 gallons			17.20
Second Tier - Over - 123,000 gallons			35.80

RATE DESIGN¹

	-----Association's-----		-----Staff Recommended-----		
	Present Rates	Proposed Charges	Service Line Charges	Meter Charges	Total Charges
<u>Service Line and Meter Installation Charges</u>					
5/8" x 3/4" Meter	\$450.00	\$7,500.00	\$1,700.00	\$ 300.00	\$2,000.00
3/4" Meter	515.00	N/A	1,700.00	380.00	2,080.00
1" Meter	590.00	N/A	1,750.00	420.00	2,170.00
1½" Meter	820.00	N/A	1,785.00	630.00	2,415.00
2" Meter	1,380.00	N/A	1,945.00	1,130.00	3,075.00
3" Meter	1,935.00	N/A	2,120.00	1,635.00	3,755.00
4" Meter	3,030.00	N/A	2,485.00	2,515.00	5,000.00
6" Meter	5,535.00	N/A	3,045.00	4,710.00	7,755.00
<u>Service Charges</u>					
Establishment	\$10.00	\$75.00	\$30.00		
Establishment (After Hours)	0.00	0.00	40.00		
Reconnection (Delinquent)	10.00	50.00	30.00		
Meter Test (If Correct)	7.50	25.00	25.00		
Deposit	*	*	*		
Deposit Interest Per Annum	*	*	*		
Re-Establishment (Within 12 Months)	14.00	75.00	**		
NSF Check	25.00	40.00	25.00		
Deferred Payment - Per Month	5.00	10.00	1.50%		
Meter Re-Read (If Correct)	5.00	25.00	25.00		
Late Payment Charge-Per Month	0.00	10.00	1.50%		
<u>Monthly Service Charge for Fire Sprinkler</u>					
4" or Smaller	\$0.00	\$0.00	***		
6"	0.00	0.00	***		
8"	0.00	0.00	***		
10"	0.00	0.00	***		
Larger than 10"	0.00	0.00	***		

* Per Commission Rules (R14-2-403.B)

** Months off system times the minimum (R14-2-403.D)

*** 1.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

1 Provides revenue to support issuance of a 20-year amortizing, 4.9 percent per annum loan.

EXHIBIT D

TYPICAL BILL ANALYSIS¹

General Service 5/8 X 3/4 - Inch Meter

Average Number of Customers: 228

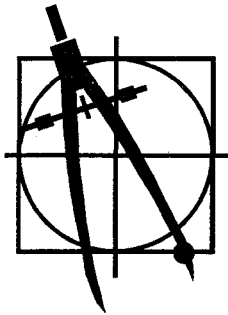
<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	2,433	\$21.30	\$49.88	\$28.58	134.2%
Median Usage	1,532	\$18.60	\$44.93	\$26.33	141.6%
<u>Staff Recommend</u>					
Average Usage	2,433	\$21.30	\$83.20	\$61.90	290.6%
Median Usage	1,532	\$18.60	\$72.39	\$53.79	289.2%

Present & Proposed Rates (Without Taxes) General Service 5/8 X 3/4 - Inch Meter

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$14.00	\$42.00	200.0%	\$54.00	285.7%
1,000	17.00	42.00	147.1%	66.00	288.2%
2,000	20.00	47.50	137.5%	78.00	290.0%
3,000	23.00	53.00	130.4%	90.00	291.3%
4,000	26.50	58.50	120.8%	104.40	294.0%
5,000	30.00	64.00	113.3%	118.80	296.0%
6,000	33.50	69.50	107.5%	133.20	297.6%
7,000	37.50	77.50	106.7%	150.40	301.1%
8,000	41.50	85.50	106.0%	167.60	303.9%
9,000	45.50	93.50	105.5%	184.80	306.2%
10,000	49.50	101.50	105.1%	202.00	308.1%
15,000	89.50	151.50	69.3%	381.00	325.7%
20,000	129.50	201.50	55.6%	560.00	332.4%
25,000	169.50	261.50	54.3%	739.00	336.0%
50,000	369.50	561.50	52.0%	1,634.00	342.2%
75,000	569.50	861.50	51.3%	2,529.00	344.1%
100,000	769.50	1,161.50	50.9%	3,424.00	345.0%
125,000	969.50	1,461.50	50.7%	4,319.00	345.5%
150,000	1,169.50	1,761.50	50.6%	5,214.00	345.8%
175,000	1,369.50	2,061.50	50.5%	6,109.00	346.1%
200,000	1,569.50	2,361.50	50.5%	7,004.00	346.3%

¹ Provides revenue to support issuance of a 20-year amortizing, 4.9 percent per annum loan.

EXHIBIT E



**CORRECTED/REVISED Engineering Report
for Groom Creek Water Users Association**

Docket No. W-01865A-07-0385 (Rates)

By: Marlin Scott, Jr. *msj*
Utilities Engineer

July 31, 2008

CONCLUSIONS

- A. Groom Creek Water Users Association ("Association") has a water loss of 7%, which is below the targeted 10% level.
- B. The Association system's current two well source and storage capacities are adequate to serve its present customer base and reasonable growth.
- C. The Arizona Department of Environmental Quality ("ADEQ") reported no deficiencies and has determined that the Association's system, PWS #13-040 is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.
- D. The Association reported its arsenic concentration for its two wells at less than 1 part per billion ("ppb"). Based on this arsenic concentration, the Association is in compliance with the new arsenic standard of 10 ppb.
- E. The Association is not located in an Active Management Area ("AMA") and therefore, is not subject to any AMA reporting and conservation requirements.
- F. The Association has no delinquent Commission compliance issues.
- G. The Association has an approved curtailment tariff that became effective on May 25, 2005.
- H. The Association has an approved backflow prevention tariff that became effective on March 16, 2008.

RECOMMENDATIONS

- 1. Staff recommends an annual water testing expense of \$1,956 be used for purposes of this application and further recommends that the remaining \$252 of the reported \$2,208 be classified as part of the water operator's fee.

2. Staff recommends that the Association use Staff's depreciation rates delineated in Table B.
3. Staff recommends approval of Staff's Service Line and Meter Installation Charges as delineated in Table C.

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A. LOCATION OF ASSOCIATION

Groom Creek Water Users Association ("Association") serves a community located approximately five miles south of Prescott. Figure 1 shows the location of the Association within Yavapai County and Figure 2 shows the certificated area covering approximately 1/8 square-mile or 80 acres.

B. DESCRIPTION OF THE WATER SYSTEM

The water system was field inspected on August 21, 2007, by Marlin Scott, Jr., Staff Utilities Engineer, in the accompaniment of Jerry Hodgson, President of the Association. The current system consists of two well sites, two booster systems and a distribution system serving approximately 225 customers. A system schematic is shown as Figure 3 and a detailed plant facility listing is as follows:

Table 1. Well Sites

Plant Items	Well #1	Well #2
Casing Size	8-inch	6-inch
Casing Depth	190 ft.	240 ft.
Submersible Pump	3-Hp	2-Hp
Pumping Rate	45 GPM	25 GPM
Chlorination	Liquid	Liquid
Meter Size	1-1/2" x 2"	1-1/2" x 2"
Storage Tanks	Two 44,000 gal.	5,000 gal.
Booster Pumps	Two 5-Hp	5-Hp
Pressure Tanks	3,000 gal.	Two 75 gal.
Chain Link Fencing	60 ft. x 60 ft.	40 ft. x 40 ft.
Generator	15 kW propane	-

Table 2. Water Mains

Diameter	Material	Length
3-inch	Transite	2,950 ft.
4-inch	Transite	8,200 ft.
5-inch	Transite	2,050 ft.
6-inch	Transite	5,650 ft.
	Total:	18,850 ft.

Table 3. Customer Meters

Size	Quantity
5/8 x 3/4-inch	225
3/4-inch	-
1- inch	-
1-1/2-inch	-
2-inch	-
Total:	225

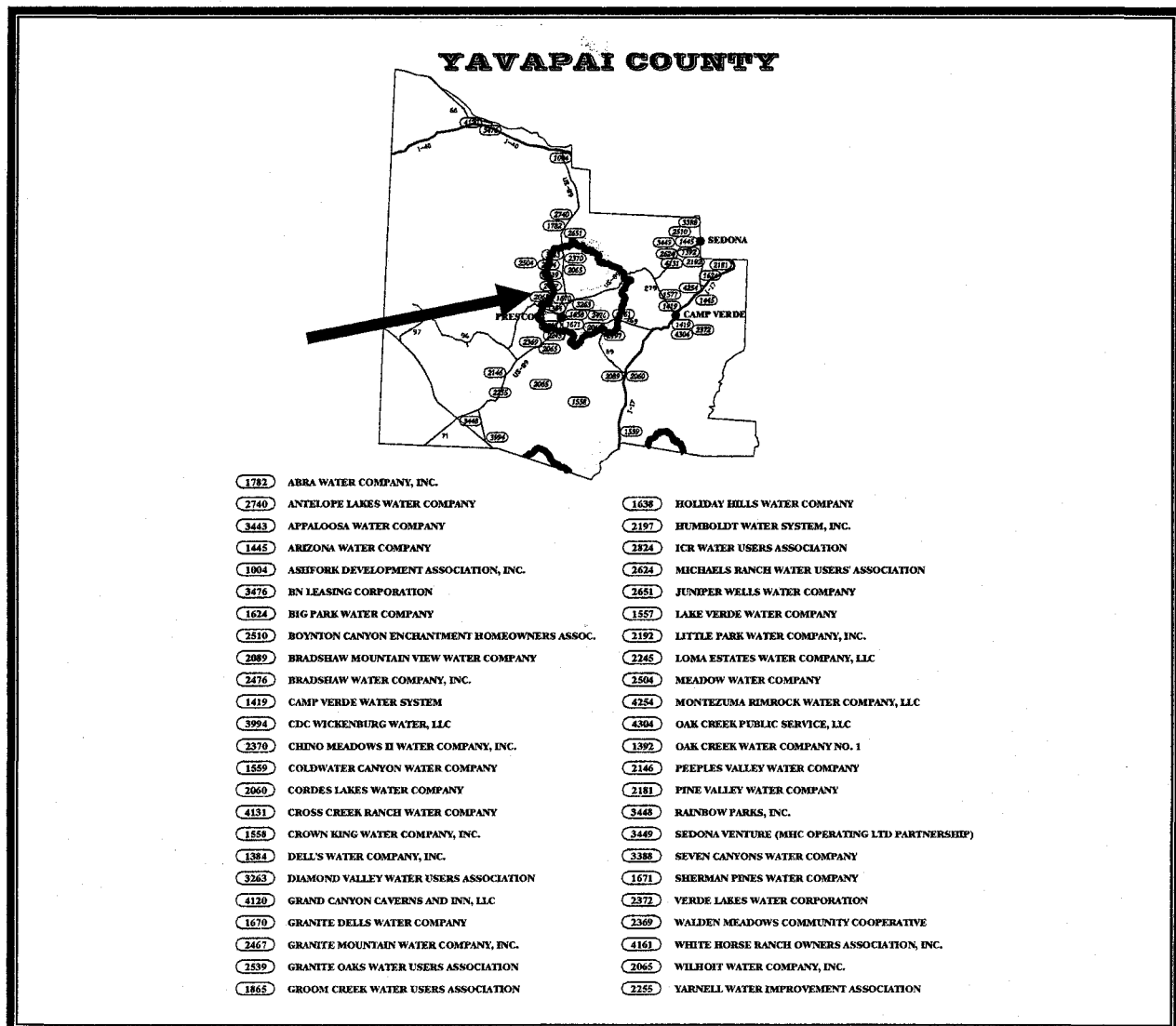


Figure 1. Yavapai County Map

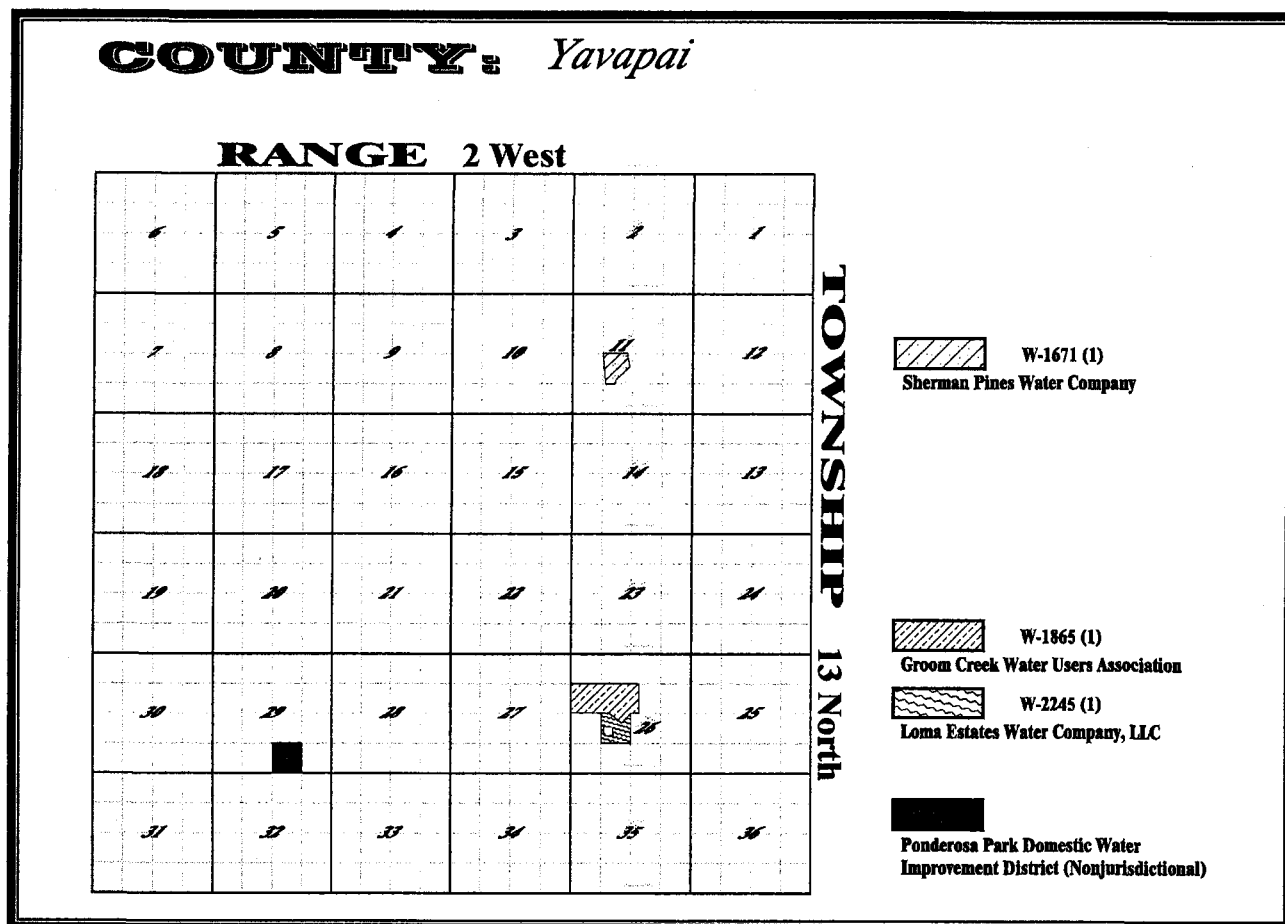


Figure 2. Certificated Area

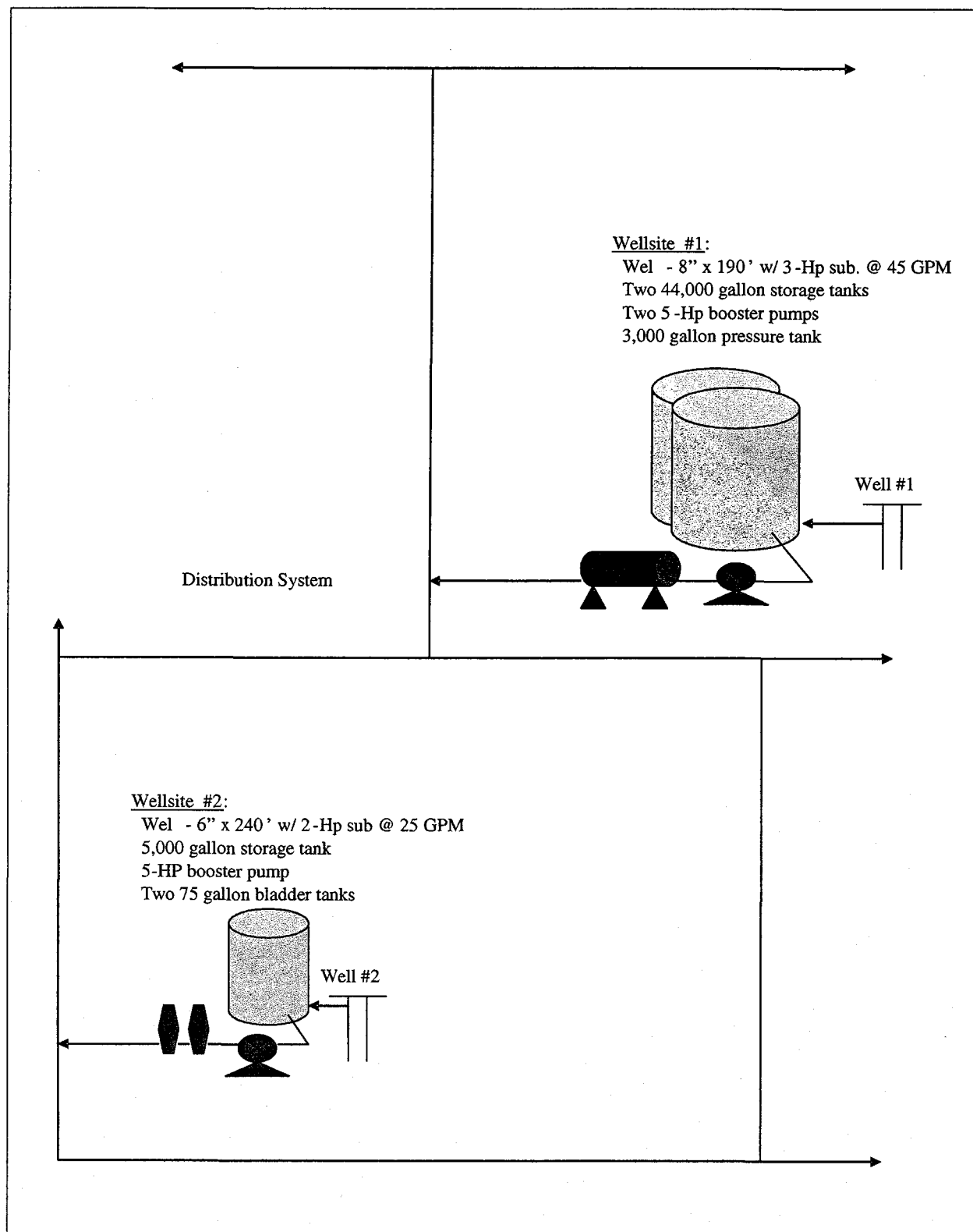


Figure 3. System Schematic

C. WATER USE

Water Sold

Figure 4 represents the water consumption data for the test year 2006. The actual consumption was low due to usage reflected primarily by only 40 percent of the customers being full-time residences. A high monthly usage of 123 gallons per day (“GPD”) per connection in June and a low monthly water use of 55 GPD per connection in March were experienced, for an average monthly use of 79 GPD per connection.

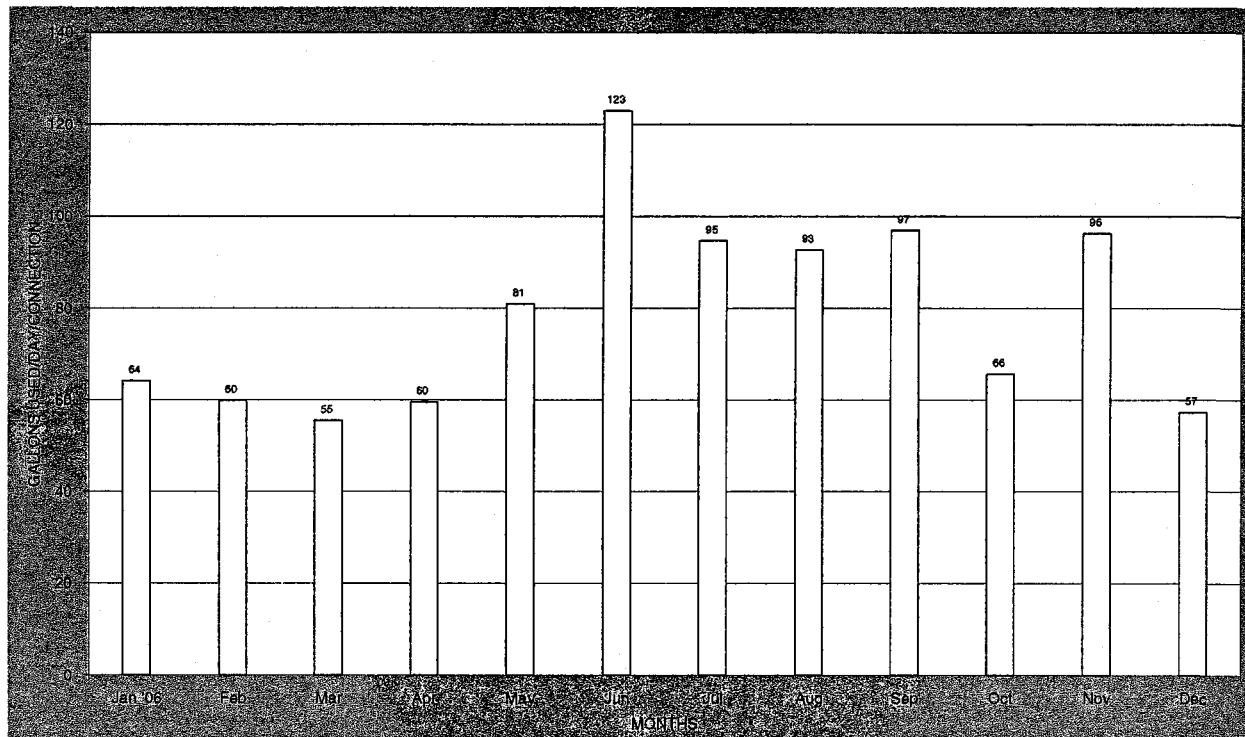


Figure 4. Water Use

Non-Account Water

Non-account water should be 10% or less. The Association reported 7,022,450 gallons of water pumped and 6,535,780 gallons of water sold, resulting in a water loss of 7%. This 7% is below Staff's recommended level of 10%.

System Analysis

The system's current two source well capacity totaling 70 GPM and 93,000 gallons of storage capacity is adequate to serve approximately 320 service connections. The system currently has 225 connections. Therefore, this system can adequately serve its current customer base and reasonable growth.

D. GROWTH

Based on customer data obtained from the Association's Annual Reports, it is projected that the Association could have approximately 235 customers by 2011. Figure 5 depicts actual growth from 1991 to 2006 and projects an estimated growth for the next five years using linear regression analysis.

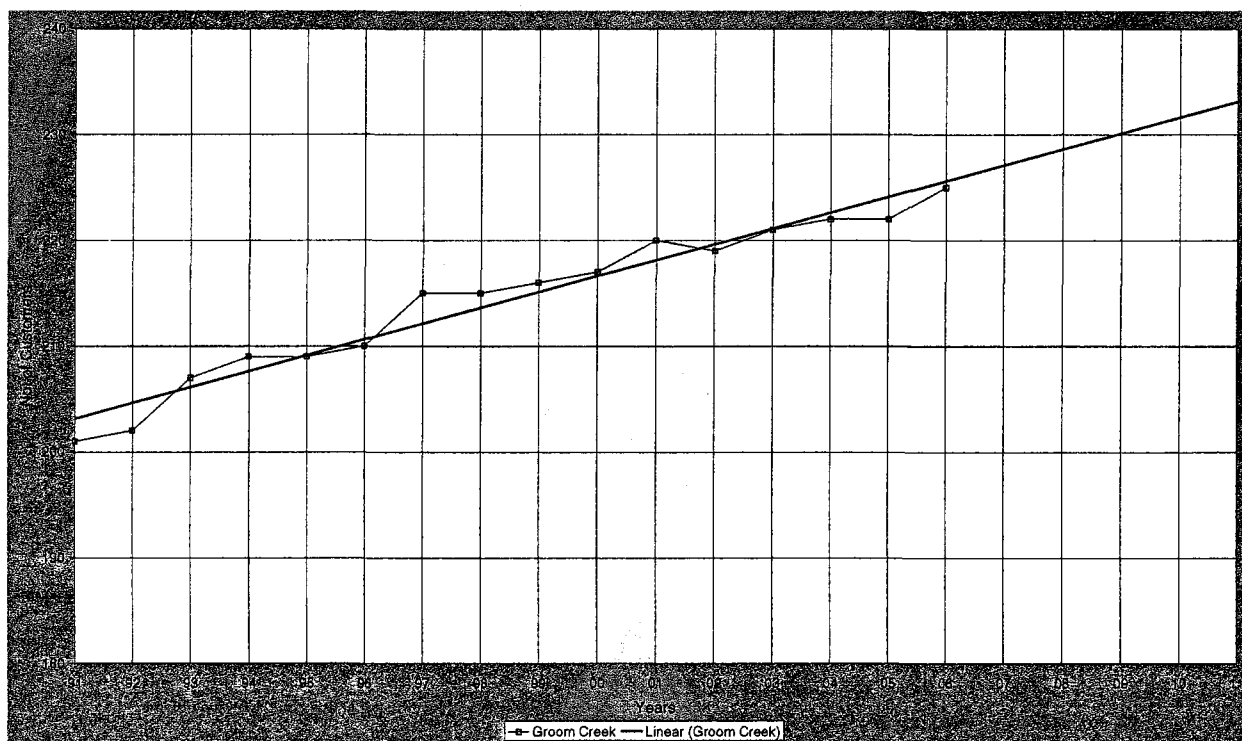


Figure 5. Growth Projection

E. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY ("ADEQ") COMPLIANCE

Compliance

According to an ADEQ Compliance Status Report, dated June 12, 2007, that was submitted with the rate application, ADEQ reported no deficiencies and has determined that the Association's system, PWS #13-040, is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

Water Testing Expense

The Association is subject to mandatory participation in the Monitoring Assistance Program ("MAP"). Starting January 1, 2002, water companies paid a fixed \$250 per year fee, plus an

additional fee of \$2.57 per service connection, regardless of meter size for participation in MAP. Participation in the MAP program is mandatory for water systems, which serve less than 10,000 persons (approximately 3,300 service connections).

The Association reported its water testing expense at \$2,208 during the test year by combining water testing costs and a portion of water operator's fees. Staff has reviewed these expenses and has recalculated the annual expense by adding the omitted monitoring requirements for lead & copper and Disinfection/Disinfection By-Product ("D/DBP"). Annual D/DBP monitoring applies to any public water system that adds a halogenated disinfectant during the treatment process. The Association chlorinates its wells and therefore, is required to monitor for D/DBP. Table A shows Staff's adjusted annual monitoring expense estimate of \$1,956 with participation in the MAP.

Table A. Water Testing Cost

Monitoring (Tests per 3 years, unless noted.)	Cost per test	No. of tests	Annual Cost
Total coliform – monthly	\$69	12	\$828
Inorganics – Priority Pollutants	MAP	MAP	MAP
Radiochemical – per 4 years	MAP	MAP	MAP
Phase II and V:			
Nitrate – annual	\$55	2	\$110
Nitrite – once per period	MAP	MAP	MAP
Asbestos – per 9 years	MAP	MAP	MAP
MAP – IOC, SOC, & VOCs	MAP	MAP	## \$831
Lead & Copper – per 3 years	\$45	5	\$75
D/DBP:			
TTHM/HH5 – per 3 years	\$335	1	\$112
Total			\$1,956

Note: ADEQ - MAP invoice for the 2007 Calendar Year is \$830.82.

Staff recommends an annual water testing expense of \$1,956 be used for purposes of this application and further recommends that the remaining \$252 of the reported \$2,208 be classified as part of the water operator's fee.

Arsenic

The Association reported its arsenic concentration for its two wells at less than 1 part per billion ("ppb"). Based on this arsenic concentration, the Association is in compliance with the new arsenic standard of 10 ppb.

F. ARIZONA DEPARTMENT OF WATER RESOURCES COMPLIANCE

The Association is not located in an Active Management Area ("AMA") and therefore, is not subject to any AMA reporting and conservation requirements.

G. ARIZONA CORPORATION COMMISSION COMPLIANCE

A check with the Utilities Division Compliance Section showed no delinquent Commission compliance issues for the Association.

H. DEPRECIATION RATES

The Association has been using a depreciation rate of 5.00% in every National Association of Regulatory Utility Commissioners ("NARUC") plant category. In recent orders, the Commission has been shifting away from the use of composite rates in favor of individual depreciation rates by NARUC category. (For example, a uniform 5% composite rate would not really be appropriate for either vehicles or transmission mains and instead, different specific retirement rates should be used.)

Staff has developed typical and customary depreciation rates within a range of anticipated equipment life. These rates are presented in Table B and it is recommended that the Association use depreciation rates by individual NARUC category on a going-forward basis.

Table B. Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00

310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	----	----

NOTES:

1. These depreciation rates represent average expected rates. Water companies may experience different rates due to variations in construction, environment, or the physical and chemical characteristics of the water.
2. Acct. 348, Other Tangible Plant may vary from 5% to 50%. The depreciation rate would be set in accordance with the specific capital items in this account.

I. OTHER ISSUES

1a. Service Line and Meter Installation Charges

The Association has requested a change to its service line and meter installation charge for only the 5/8 x 3/4-inch meter. The Association has requested a \$2,000 charge for this meter size based on recent contractor charges the Association has experienced. The installation charges are

refundable advances. The Association's requested charge is not within Staff's customary range of charges for a 5/8 x 3/4-inch meter.

To support its request, the Association submitted on March 12, 2008, documents for, a) contractor's backhoe and operator's fees, b) mobilization cost, c) plumber's fee, d) material costs and e) County permit fees. In addition, the Association noted that its water mains were located in the center of the roads, which would make the installation charges uniform (no short installation versus long installation). Based on the submitted documents and Staff's review, the Association has justified its requested charge. Therefore, Staff will adopt the Association's requested charge of \$2,000 for a 5/8 x 3/4-inch meter. Staff further recommends graduating the installation charges for larger meter sizes based on \$2,000 for the 5/8 x 3/4-inch meter.

Since the Association may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation. Therefore, Staff recommends approval of its charges as shown in Table C below, with separate installation charges for the service line and meter installations.

Table C. Service Line and Meter Installation Charges

Meter Size	Association's Current Charges	Recommended Service Line Charges	Recommended Meter Charges	Recommended Total Charges
5/8 x 3/4-inch	\$450	\$1,700	\$300	\$2,000
3/4-inch	\$515	\$1,700	\$380	\$2,080
1-inch	\$590	\$1,750	\$420	\$2,170
1-1/2-inch	\$820	\$1,785	\$630	\$2,415
2-inch	\$1,380	\$1,945	\$1,130	\$3,075
3-inch	\$1,935	\$2,120	\$1,635	\$3,755
4-inch	\$3,030	\$2,485	\$2,515	\$5,000
6-inch	\$5,535	\$3,045	\$4,710	\$7,755

1b. Impact Fee/Off-Site Facilities Hook-Up Fee

In its initial rate filing, the Association requested a \$7,500 impact fee for new service connections for only a 5/8 x 3/4-inch meter installation. According to the Association, the amount of this impact fee was "taken out of the air". Staff has reviewed this impact fee request and considers it similar to an Off-Site Facilities Hook-Up Fee ("HUF"). In this case, due to minimal growth (2 new service connections per year) and limited total, potential growth (43 unoccupied lots remaining), it is Staff's opinion that this Association is not a good candidate for a HUF.

2. **Curtailment Tariff**

The Association has an approved curtailment tariff that became effective on May 25, 2005.

3. **Backflow Prevention Tariff**

The Association has an approved backflow prevention tariff that became effective on March 16, 2008.

EXHIBIT F

MEMORANDUM UPDATE

TO: Kevin Torrey
Attorney
Utilities Division

FROM: Alfonso Amezcua *AA*
Public Utilities Consumer Analyst II
Utilities Division

THRU: Connie Walczak *cw*
Consumer Services Manager
Utilities Division

DATE: July 25, 2008

RE: Groom Creek Water Users Association
Docket No. W-01865A-07-0385

A research of the Consumer Services database prior to July 2, 2008, revealed 32 opinions were filed opposed to the proposed rate case and 67 were filed in favor for a total of 99.

Currently there are 33 opposed to the proposed rate case and 71 in favor for a total of 104.

A total of eight customer complaints have been filed. All complaints have been resolved and closed.

File